

WESTERN ASSET MANAGEMENT- CORE FULL DISCRETION
GLOBAL FIXED: LEHMAN AGGREGATE BENCHMARK

FOR THE MONTH OF: **AUGUST** **2006**

MANAGER PERFORMANCE CALCULATIONS

* Annualized returns

	Last <u>Month</u>	Last <u>3 Months</u>	Last <u>1 Year</u>	Last <u>3 Years*</u>	Last <u>5 Years*</u>
Western	1.91%	3.91%	2.38%	n/a	n/a
Lehman Aggregate	1.53%	3.12%	1.71%	n/a	n/a

PERFORMANCE ATTRIBUTION & STRATEGY COMMENTS

Performance Attribution—August

Strategies produced generally positive results in August. Overweight duration was rewarded as interest rates fell, while a modestly bulleted yield curve exposure detracted from performance as the curve flattened. Overweight exposure to the mortgage-backed sector was a modest plus, since spreads only widened marginally, while underweight exposure to investment grade credits was a modest negative. A moderate exposure to TIPS had little impact on performance, as the negative impact of lower breakeven spreads was roughly offset by TIPS's longer duration. A modest exposure to emerging market debt added to performance as spreads tightened. Our emphasis on high-yield auto sector debt was rewarded as spreads narrowed. Nondollar bond exposure detracted from returns as foreign bond yields declined by less than their domestic counterparts, and our long position in the front end of the U.K. yield curve suffered as rates rose.

Outlook and Strategy

With economic growth moderating and the Fed likely to pause, we think interest rates are likely to be relatively stable near term. Thus we continue to follow a tactical duration strategy, allowing duration to follow the direction of rates. We have a modest exposure to a steeper yield curve, in the belief that stable short-term interest rates will allow a more normal term premium to reestablish itself. Our primary sector overweight is to mortgages, since they should benefit from low volatility. With credit spreads generally low, we are targeting a neutral to underweight exposure to the sector, with overweights concentrated in the auto and high-yield sectors. We hold a moderate exposure to TIPS as a hedge against higher-than-expected inflation, and a moderate exposure to nondollar bonds largely for their diversifying properties.

MANAGER STYLE SUMMARY

Western manages a customized portfolio for PERSI, which falls outside of their traditional product offerings. While the product is called, "Core Full Discretion" (one of their traditional products), Western has the flexibility to invest in global inflation-linked bonds and to take bigger bets where they see the opportunity. As such, this portfolio is more volatile than the traditional underlying product. This global mandate allows Western to hold foreign, non-dollar denominated securities, take currency positions, and enter into futures, options and swaps contracts.

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PORTFOLIO GUIDELINE COMPLIANCE

AUGUST 2006

Portfolio Guideline:	Western	Min	Max	Compliance
C. Weighted average duration including futures positions	8.20	-30.00	30.00	ok
C4 (2): Sector Allocation				
a. Non-dollar denominated securities		0%	40%	ok
Un-hedged non-dollar denominated securities		0%	20%	ok
b. U.S. securities rated below investment grade (BIG)		0%	40%	ok
c. Non-dollar, Non-U.S. securities rated BIG		0%	20%	ok
d. Non-dollar denominated+emerging mkt+high yield		0%	50%	ok
C4 (3): Issuer				
a. Guaranteed by US gov, agencies, gov-sponsored corp or G-7		0%	100%	ok
b. Other national governments - limit per issuer		0%	10%	ok
c. Private MBS/ABS - limit per issuer		0%	10%	ok
If collateral is credit-independent of issuer & security's credit enhancement is generated internally - limit per issuer		0%	25%	ok
d. Obligations of other issuers subject to per issuer limit		0%	5%	ok
C4 (5): Credit				
No more than 40% of portfolio below Baa3 or BBB-/A2 or P2		0%	40%	ok
C4 (7): Derivatives				
Original futures margin and options premiums, exclusive of any in-the-money portion of the premiums		0%	5%	ok
F2. Annual Turnover	67%	100%	200%	check
The portfolio is in compliance with all other aspects of the Portfolio Guidelines			<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

MANAGER EXPLANATIONS FOR DEVIATIONS FROM PORTFOLIO GUIDELINES

percentages are based off market values that have not yet been reconciled

ORGANIZATIONAL/PERSONNEL CHANGES

ACCOUNT TURNOVER

Gained:	Number of Accounts:	Total Market Value (\$m):
Lost:	Number of Accounts:	Total Market Value (\$m):
	Reason(s):	